

Wisconsin Property Taxpayers, Inc.

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January 28, 2009

INFORMATION

RE: The "HOPE" Proposal

Impact of "HOPE" proposal on property tax "fairness"

In announcing the introduction of the "HOPE" proposal, 2007 SJR-80, a Constitutional amendment designed to reduce school taxes for homeowners, state Senator Dave Hansen (D-Green Bay) was quoted as saying: "Over the years we've seen more and more of the tax burden shifting onto the backs of homeowners and working families while those who have the ability to hire high-priced lobbyists and tax lawyers have seen their share decline." In announcing his intent to reintroduce the same measure in this session, the Senator was quoted as saying "It's time to restore fairness in the tax code and the property tax is a good place to start," he added, implying that the "HOPE" proposal would achieve that objective.

We urge you to weigh the facts against these assertions.

Tax Shift Reflects Economic Change, Not Business Tax Exemptions

While it is true that the property tax burden has shifted from business to residential property owners over the years, that shift is primarily due to increased residential and decreased business development, not business tax exemptions. (See: Property Tax Issue Paper #2, page 2.)

Tax Exemptions Increase Businesses' As Well As Homeowners' Tax Burden

At most, the tax exemptions granted certain classes of property in the past thirty years have increased net taxes on all remaining classes of taxable property, not just to homeowners, but also to commercial, manufacturing, agricultural and business personal property, by about 5%. (See: Tax Exemption Devices 2007-09, Wisconsin Department of Administration)

Businesses Pay More Net Tax On Equally Valued Properties Than Homeowners Do

As for property tax "fairness," businesses pay 10% more relative to the value of their real property than homeowners do. In addition to being taxed on the value of their real estate (20.0% of taxable value statewide) businesses are taxed on the machinery, equipment, furnishings and other personal property they need to do business (2.0% of the statewide total value.) As a result, homeowners pay 2% less real estate taxes. Homeowners also receive an-above-the-line lottery tax credit which further reduces their net property tax burden. Businesses do not. (See page 2.)

"HOPE" Would Permanently Eliminate, Not Restore Property Tax Fairness

The current Uniformity Clause of the Constitution guarantees fairness in property taxation; equal taxation of equally valued properties regardless of classification. (See page 3.) "HOPE" would permanently guarantee inequity in property taxation; substantially lower taxes on owner-occupied residential property than for other properties of equal value – including renter-occupied homes and apartments. If "HOPE" had been in effect last year, residential renters and owners of all other properties would have paid 58% more school tax than the owners of equally valued owner-occupied residential properties.

(More, page 2.)

Property Tax Issue Paper #2 **Business vs. Residential Property Taxes**

Preface: This paper examines and discusses the misconceptions underlying the introduction of the "HOPE" proposal, namely that:

- 1 - Businesses do not pay their fair share of the statewide property tax.*
- 2 -The increase in residential taxes is largely due to increased business tax exemptions.*
- 3 -Homeowners pay more than their fair share of the statewide property tax.*

Rhetoric: Businesses do not pay their fair share of the statewide property tax.

Reality: Under current law, business and residential property owners are equally taxed on the basis of the fair market value of their properties. In addition to being taxed on their real property, i.e. land and improvements, businesses are taxed on the value of non-exempt "personal property," i.e. furniture, machinery, equipment and other items essential to conducting their businesses. Individuals have long been exempted from taxation on personal property of any kind. As for paying their fair share, while they only own 20.0% of the state's real estate, commercial and manufacturing businesses pay 22.2% of the total statewide property tax.

Rhetoric: Homeowners pay more because of recent business and agricultural property tax exemptions.

Reality: While it is true that residential property owners pay more (72.5%), and agricultural and business property owners pay less (27.5%) of the statewide property tax than they did thirty years ago, that shift is primarily the result of economic change, i.e. greatly increased residential construction activity relative to commercial, and industrial development – not increased business property tax exemptions.(See Table 1.below.)

Table 1. Changes In Property Value 1977-2006

	1977		2006	
	Value (Billions)	%	Value (Billions)	%
Residential	\$37.8	51.4	\$340.2	72.5
Commercial	10.0	13.6	81.9	17.5
Manufacturing	3.6	4.9	11.8	2.5
Agricultural/Other	12.4	16.8	24.5	5.2
Personal Property	9.8	13.3	10.4	2.2
Total	73.5	100.0	469.0	100.0

Data Source: Wisconsin Department of Revenue

In the past thirty years, the State Legislature has exempted machinery and equipment used in manufacturing and waste treatment facilities; certain computer equipment; and agricultural land. The \$3.2 billion Computer Equipment exemption is fully funded by State, not property tax dollars. The other principal classes of tax-exempt personal property - manufacturing and waste treatment machinery and equipment - represent about 3.1% of the statewide value. The agricultural land exemption reduced the statewide tax base about 2%. Altogether, these exemptions shifted about 5% of the statewide property tax to all other classes of property – industrial and commercial, as well as residential and business personal property. The balance of the 41% increase in residential taxes is due to increased residential growth, not agricultural or business tax exemptions. (Source: Tax Exemption Devices 2007-08, Wisconsin Department of Administration)

Rhetoric: Homeowners pay more than their fair share of the statewide property tax.

Reality: Homeowners' property tax bills are reduced by the lottery credit. Business properties do not share in the lottery credit. In addition, homeowners and renters receive income tax credits for a portion of the property tax paid. Businesses do not. As a result, homeowners pay less and businesses pay more net property tax on equally valued properties.

(MORE, page 3.)

Property Tax Issue Paper #1

Protecting Fairness (Uniformity) In Property Taxation

The Uniformity Clause of Wisconsin's Constitution requires and guarantees fairness in property taxation; equal taxation of equally valued properties.

Although it has been amended over the years to exclude certain classes of property, and other types of taxes, Article VIII, Section 1, of the state Constitution continues to require that, when it comes to taxing property, "**The rule of taxation shall be uniform...**"

Since it was adopted in 1848, this provision of our Constitution has been the subject of interpretation in more than 120 Wisconsin Supreme Court cases; cases in which the Court accumulatively concluded that:

While the legislature may fully exempt certain types of property from taxation, all taxable properties must be taxed uniformly.

Equally valued properties must be equally taxed regardless of their classification.

All taxable properties within the same municipality must be assessed at the same fraction of their "Fair Market (Equalized) Value" and taxed at the same rate or percentage of value.

Except for the Lottery Credit, property tax credits must be uniformly distributed to all taxable property owners on the basis of their property's value.

Amending Property Tax Fairness (Uniformity) Out of the Constitution

Recently, there have been a number of well-intentioned, but misguided attempts to amend fairness out of the Constitution; to allow some property owners to pay more and others to pay less than their fair share of their school and local property taxes. These proposals are generally aimed at reducing taxes for homeowners and increasing taxes for business, commercial, and rental residential property taxpayers.

Unequal Assessment

To prevent hyper-inflationary tax increases for the duration of ownership, some have proposed amending the Constitution to freeze or cap assessment increases at less than the increase in property values until properties are resold. Because it would guarantee that no taxpayer would ever pay his or her fair share, **WPT opposes these proposals.**

Exempting Some, Taxing Others For A Portion Of Residential Property Taxes

To provide relief for homeowners, others would amend the Constitution to require that homeowners' tax bills be reduced by the school tax on up to \$60,000 of their home value, indexed to inflation. (See "HOPE" proposal, 2007 SJR-80) Because it would guarantee unfair taxation: lower taxes on owner-occupied principal residences and higher taxes on equally valued second homes, rental, commercial and other classes of property, **WPT opposes this proposal.**

Taxing Businesses More And Homeowners Less

To increase revenue, some propose amending the Constitution to allow rental, commercial, manufacturing and business personal properties to be taxed at higher rates than owner-occupied residential properties. Because they would guarantee higher taxes on some and lower taxes on other properties of equal value, **WPT opposes these proposals.**



TO: Assembly Ways and Means Committee

FROM: Michael Theo, Vice President for Legal and Public Affairs

DATE: April 6, 2010

RE: AJR 8 – Uniform Taxation Clause of the Constitution

The Wisconsin REALTORS Association (WRA) supports reducing Wisconsin's on-going over-reliance on the property tax, which equally harms housing affordability and business opportunities. However, we oppose proposals to address the issue by simply changing the uniform taxation clause of the state constitution without a plan specifying who will receive tax relief, who will pay more in taxes and how vital services, including schools, will be funded. For these reasons, we oppose AJR 8 as drafted.

Background

Wisconsin's constitution requires property taxes to be applied uniformly to all property unless a specific exemption is provided. AJR 8 proposes to amend the uniform taxation clause of the Constitution to create an exception from the uniformity clause for principal residences, allowing the legislature to provide that they be taxed differently from other property.

Concerns

AJR 8, as originally drafted, would result in a shift of property taxes from principal residences to other, non-residential property including commercial property, manufacturing property, undeveloped land and personal property, as well as second homes and non-owner occupied multifamily property.

Substitute Amendment

On March 3rd, the bill's author, Rep. Sherman, offered ASA 1. The substitute amendment would allow the legislature to appropriate funds for property tax relief for owners of principal residences. Under this amendment, the legislature could create a grant or credit program of any size it chooses in order to make payments solely to owners of principal residences.

This change would be an improvement to the original bill because it attempts to address the issue of shifting taxes to other forms of property. However, without

specifying an exact funding level or source, the bill remains seriously flawed. Our concerns include the following:

- Changing the uniform taxation clause in and of itself is not the answer. Exposing our property tax system to impulsive schemes that lower some property taxes by raising other taxes is unwise and will only exacerbate our problems.
- Dismantling current constitutional tax provisions should not advance without specifying who will receive tax relief, who will pay more taxes, and how vital services, including schools, will be funded.
- It should be recognized that all property owners need tax relief. As we strive to provide homeowners with relief, we must also seek to encourage commercial and manufacturing businesses to create jobs by reducing one of the largest costs for businesses in Wisconsin, high property taxes.

Serious, sensible and sustainable property tax reform can only be accomplished comprehensively with reforms that lower property taxes for job-creating businesses and insure affordable, available and desirable housing for Wisconsin families. Toward that end, we remain committed and ready to work with the author, legislators from both parties and Governor Doyle.